

Table of Contents

<i>List of Acronyms</i>	<i>4</i>
<i>Introduction</i>	<i>5</i>
<i>Scope and Methodology</i>	<i>6</i>
<i>Results in Brief</i>	<i>7</i>
<i>Background.....</i>	<i>8</i>
<i>Receivership Termination Process</i>	<i>9</i>
<i>DRR Reporting.....</i>	<i>10</i>
<i>Reliability of Information Systems for Tracking and Reporting</i>	
<i>Receivership Termination Activity</i>	<i>11</i>
<i>General Controls</i>	<i>12</i>
<i>Application Controls</i>	<i>13</i>
<i>Separation of Duties within the Receivership Termination Process.....</i>	<i>15</i>
<i>Reconciliation of Termination Activity and Review of Case Files</i>	<i>16</i>
<i>Financial Receiverships</i>	<i>16</i>
<i>Non-Financial Receiverships</i>	<i>17</i>
<i>Financial Receivership Termination Reporting.....</i>	<i>18</i>
<i>Process for Reporting Financial Receivership Information</i>	<i>20</i>
<i>Non-Financial Receivership Termination Reporting.....</i>	<i>21</i>
<i>Process for Reporting Non-Financial Receivership Terminations</i>	<i>22</i>
<i>Conclusions and Recommendations</i>	<i>24</i>
<i>Corporation Comments and OIG Evaluation</i>	<i>26</i>
<i>Appendix I: Evaluation Methodology</i>	<i>28</i>
<i>Sample Selection for Data Testing</i>	<i>29</i>
<i>Appendix II: Corporation Comments.....</i>	<i>30</i>
<i>Appendix III: Management Response to Recommendations</i>	<i>39</i>

List of Acronyms

ACK	Accounting Control Key
APPO	Accounts Payable and Purchase Order System
BIF	Bank Insurance Fund
CT	Certificate of Termination
DIRM	Division of Information Resources Management
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
EDP	Electronic Data Processing
FDIC	Federal Deposit Insurance Corporation
FIMS	Financial Information Management System
FIN	Financial Institution Number
FRF	FSLIC Resolution Fund
GAO	General Accounting Office
GPRA	Government Performance and Results Act of 1993
IPA	Independent Public Accountant
LAN	Local Area Network
LDS	Liability Dividend System
LMIS	Legal Management Information System
OIG	Office of Inspector General
OMB	Office of Management and Budget
PARS	Personnel Action Request System
PTR	Pass-Through Receivership
RTC	Resolution Trust Corporation
RTS	Receivership Terminations System
SAIF	Savings Association Insurance Fund

Introduction

This report presents the results of our review of systems and data supporting the Division of Resolutions and Receiverships' (DRR) reporting of receivership management activity associated with the Federal Deposit Insurance Corporation's (FDIC) performance reporting under the Government Performance and Results Act of 1993 (GPRA or the "Results Act").

We initiated this evaluation as a pilot review in anticipation of proposed legislation that may broaden Offices' of Inspector General (OIG) responsibilities in verifying and validating agency performance results. The objectives of our review were to:

- Determine the adequacy and reliability of information systems and data supporting DRR's receivership activity reported in GPRA performance reports of receiverships in T-status and closed, and
- Develop a standard work program for evaluating the adequacy and reliability of information systems and data supporting the performance results of other FDIC functional areas.

DRR stated its goal of receivership management in the FDIC's 1997 Business Plan, 1998 Annual Performance Plan, and 1997 and 1998 Quarterly Performance Reports as shown in Table 1:

Table 1: Excerpts from the FDIC Business Plan, Performance Plan, and Quarterly Performance Reports

<i>Receivership Management</i>	
Goal 1:	Foster efficient and responsive receivership management
Objective 1:	Manage receiverships from Bank Insurance Fund (BIF), Savings Association Insurance Fund (SAIF), and FSLIC Resolution Fund (FRF), which includes the Resolution Trust Corporation (RTC), in an efficient and timely manner.
Performance Indicator and Target for 1997:	Close and/or place into T-Status 150 receiverships by year-end 1997.
Performance Goal and Target for 1998:	Reduce the number of receiverships in active status, such that by year-end 1998, 878 receiverships remain active.

Source: FDIC 1997 Business Plan, 1998 Annual Performance Plan, and 1997 and 1998 quarterly performance reports

Scope and Methodology

The scope of our review included receivership terminations reported during 1997 and the first quarter of 1998. To accomplish our objectives we:

- Reviewed FDIC's strategic, business and performance plans, and quarterly performance reports,
- Reviewed DRR's performance plan and performance reporting-related literature,
- Interviewed representatives from the Division of Finance's (DOF) Business Planning Section, which has responsibility for FDIC's GPRA reporting efforts,
- Developed a standard audit plan for reviewing DRR's performance results as well as evaluating the adequacy and reliability of information systems and data supporting the performance results of other FDIC functional areas.
- Interviewed DRR headquarters and service center officials about the receivership termination program,
- Identified systems for tracking and reporting receivership termination activity, assessed the reliability of those systems, and testing selected system controls. Appendix I provides a detailed explanation of our methodology for assessing system reliability,
- Reviewed DRR's process for reporting performance results,
- Reconciled receivership termination activity reported in quarterly performance reports to information contained within stated systems of record,
- Confirmed performance report and system information with DRR service center staff,
- Reviewed case files for 100 percent of the financial receiverships placed in T-status during fourth quarter 1997 and first quarter 1998,
- Reviewed case files for a sample of non-financial receiverships that DRR terminated during fourth quarter 1997 and first quarter 1998. Details of our sample selection are addressed in Appendix I.

We conducted our review from May 1998 through August 1998 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

Results in Brief

DRR has established goals, targets and performance indicators for managing FDIC receiverships. Further, DRR has included information in FDIC's quarterly performance reports to show its progress in meeting those goals and objectives.

DRR has also identified systems--the Financial Information Management System (FIMS) and the Receivership Terminations System (RTS)--used to validate and verify performance data, as required by the Results Act. Our work and conclusions were limited to the general and application controls relevant to those FIMS and RTS elements used for receivership termination performance reporting. In addition, we reviewed prior General Accounting Office (GAO) and OIG reports that identified a number of general control weaknesses within FDIC's computer environment--mostly involving access controls. Accordingly, we could not provide complete assurance as to the overall reliability of FIMS and RTS. However, nothing came to our attention during our testing to suggest that application controls over the elements of FIMS and RTS used for receivership termination performance reporting were not in place and working. Further, we found separation of duties between DRR and DOF within the terminations process that reinforced those application controls. Thus, we could provide assurance that those elements of FIMS and RTS used for receivership termination reporting were reliable.

With respect to the accuracy of system information and reliability of data sources, we found a few data errors within one of the systems used to track terminations. However, we found that actual financial and non-financial receivership termination activity was supported by termination case files which included approved termination cases and extensive supporting case documentation.

Finally, DRR performance reporting could be improved. We found a number of reporting discrepancies in FDIC quarterly performance reports that both understated and overstated DRR's actual performance results. Specifically, DRR under-reported the number of financial receiverships that it terminated during 1997 by 22 receiverships. In the first quarter 1998, DRR initially over-reported the number of financial receiverships that it terminated by 29 receiverships. With respect to non-financial receiverships, during 1997 and the first quarter of 1998, DRR over-reported the number of receiverships it terminated by 28 receiverships. We believe these discrepancies occurred because DRR did not clearly communicate performance reporting criteria to DRR service centers, have service center staff confirm performance results, or effectively use an existing information system to report termination activity. DRR has taken actions to clarify performance reporting criteria and to correct the performance reporting discrepancies that we identified in this report.

Background

The Results Act is the primary legislative framework through which agencies are required to set strategic goals, measure performance, and report on the degree to which goals were met. The Results Act seeks to improve the efficiency, effectiveness, and public accountability of Federal agencies as well as improve congressional decision-making. GPRA requires Federal agencies to:

- Prepare strategic plans that cover a period of at least 5 years and that include a mission statement, general goals and objectives, and describe how the agency intends to achieve those goals through its activities and through its human, capital, information, and other resources,
- Submit to the Office of Management and Budget (OMB), an annual performance plan to link the strategic plan goals to what managers and employees do day-to-day, and
- Submit to the President and appropriate congressional committees, an annual performance report for the previous fiscal year.

In November 1997, legislation was introduced in Congress to amend certain provisions of the Results Act. The legislation proposed requiring agency strategic plans to include a separate assessment by the inspectors general and agency management of the adequacy and reliability of the information and accounting systems supporting the agencies' strategic plans and performance plans and reports. The House of Representatives passed the bill in March 1998 requiring the inspector general of each agency to develop and implement a plan to review their agency's implementation of the Results Act. On October 7, 1998, the House instructed agency inspectors general to implement the review plans envisioned in the bill irrespective of whether the bill becomes a law. Among other things, this bill requires the:

"Verification and validation of selected data sources and information collection and accounting systems that support agency performance plans and performance reports and agency strategic plans..."

FDIC developed a strategic plan for the period 1997 through 2002, a business plan for 1997, and a performance plan for 1998. In May 1997, the FDIC initiated a quarterly performance reporting process for the annual performance goals set forth in the 1997 Business Plan.

Under the performance reporting process, each FDIC division is responsible for gathering and reporting on their respective sections of the performance plan. Each division submits performance information to DOF's Business Planning Section. DOF performs a cursory review of the information, combines performance report submissions from each division into a single quarterly performance report, and presents the report to FDIC's Operating Committee.

RECEIVERSHIP TERMINATION PROCESS

DRR has primary responsibility for the termination of receiverships. A receivership is a temporary entity that is established to wind up the business affairs of a failed institution. There are two types of receiverships: (1) Liquidating receivership—which retains the assets of the failed financial institution for liquidation by the FDIC, and (2) Pass-through receivership (PTR)—a shell entity that retains only the contingent liabilities of a failed financial institution. DRR generally refers to the liquidating receiverships as financial, or FIMS receiverships, and PTRs as non-financial, or non-FIMS receiverships.

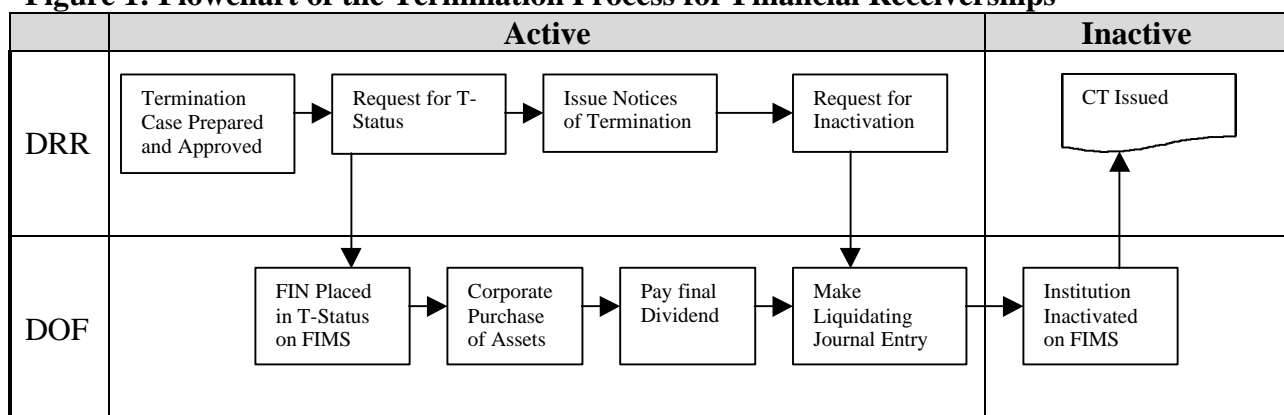
Receivership termination is a process by which the operations of a receivership are concluded and the entity ceases to exist. Receivership termination includes the following general steps:

- Providing notice of the termination to interested parties,
- Converting the remaining non-liquid receivership assets to cash, usually through the purchase by FDIC Corporate of the remaining assets,
- Declaring and paying (if funds are available) a final liquidating dividend,
- Establishing appropriate reserves for any liabilities assumed by FDIC Corporate, and
- Issuing a certificate of termination (CT).

This process requires the continuous cooperation and coordination between DRR program areas, and other divisions such as DOF and the Legal Division. A working team of managers from DRR program areas and FDIC divisions participate in the termination process and complete tasks needed to conclude receivership operations and resolve potential termination impediments.

Financial Receiverships appear on FIMS and require coordination between DRR and DOF during the termination process. Figure 1 presents the process FDIC followed for terminating a financial receivership during the course of our review.

Figure 1: Flowchart of the Termination Process for Financial Receiverships

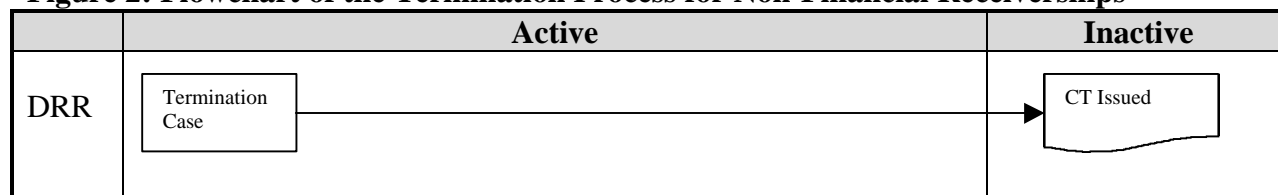


Source: Discussions with DRR and DOF Representatives

In August 1998, DRR changed its process for terminating financial receiverships and began issuing CTs before inactivation. DRR now reports terminations at the point of inactivation--the final step in the termination process.

Non-financial receiverships do not appear on FIMS. Accordingly, the process for terminating non-financial receiverships is largely contained within DRR. Figure 2 presents the process that FDIC followed for terminating non-financial receivership during the course of our review.

Figure 2: Flowchart of the Termination Process for Non-Financial Receiverships



Source: Discussions with DRR Representatives

DRR REPORTING

As mentioned above, DRR has developed performance goals, indicators and targets for its receivership termination activities. However, DRR established differing indicators during 1997 and 1998. DRR's performance indicator for 1997 was the number of receiverships closed and/or placed in T-status in FIMS. DRR's performance goal and target for 1998 was to reduce the number of receiverships in active status.¹

For financial receiverships, these indicators or targets represent two different points in the receivership termination process. As shown in Figure 1, T-status occurs after the termination case has been approved. During 1997, DRR reported termination activity for financial receiverships at the T-status stage. During 1998, DRR began reporting termination activity for financial receiverships at the stage in the process when DOF placed them in inactive status in FIMS. Inactivation occurs later in the process after the Corporation has purchased the receivership assets, paid dividends to claimants, and prepared final financial statements. Because of this reporting change, a number of financial receiverships were reported twice, once at the T-status stage during 1997 and again at the inactivation stage during 1998.

With respect to non-financial receiverships, DRR used the terminology of closed during 1997 and inactive in 1998. DRR management confirmed that both closed and inactive referred to the point in the process when DRR issues the CT. Table 2 presents DRR's performance indicators used during 1997 and 1998 for reporting receivership termination activity.

Table 2: DRR Performance Indicators for Reporting Receivership Terminations

	Performance Period 1997	Performance Period 1998
Financial Receiverships	Indicator: T-Status Reported at T-Status	Indicator: Inactive Reported at Inactivation
Non-Financial Receiverships	Indicator: Closed Reported at CT Issuance	Indicator: Inactive Reported at CT Issuance

Source: Interviews with DRR Management

¹ In the First Quarter 1998 Performance Report, DRR expanded its performance results to include the number of receiverships placed in T-status and inactivated. However, the Second Quarter 1998 Performance Report presented results for only the number of receiverships inactivated.

Reliability of Information Systems for Tracking and Reporting Receivership Termination Activity

DRR has identified systems used to validate and verify performance data, as required by the Results Act. We reviewed general and application controls relevant to those FIMS and RTS elements used for receivership termination performance reporting. Prior GAO and OIG reports identified a number of general control weaknesses within FDIC's computer environment--mostly involving access controls. However, nothing came to our attention during our testing to suggest that application controls over the elements of FIMS and RTS used for receivership termination performance reporting were not in place and working. Further, we found separation of duties between DRR and DOF within the terminations process that reinforced those application controls. Accordingly, while we could not provide complete assurance as to the overall reliability of FIMS and RTS, we could provide assurance that those elements of FIMS and RTS used for receivership termination reporting were reliable.

The Results Act requires each agency to prepare an annual performance plan covering each program activity set forth in the agency budget. Among other things, performance plans should describe the means to be used to verify and validate measured values of actual performance. On June 23, 1997, OMB issued Circular No. A-11, Part 2, *Preparation and Submission of Strategic Plans and Annual Performance Plan*. Section 220.13, *Verification and Validation*, states:

“The annual performance plan should include a description of how an agency intends to verify and validate the measured values of actual performance. The means used should be sufficiently credible and specific to support the general accuracy and reliability of the performance information that is recorded, collected, and reported. Agencies have discretion in determining the method of verification and validation to be used. Although GPRA does not prescribe use of any particular method, technique, or organizational entity, agencies should continue relying on established procedures, such as an audit of financial performance, for certain goals and indicators.”

According to the 1998 Annual Performance Plan, receivership management activities are tracked through FIMS and RTS.

To assess the reliability of these information systems, we first determined the reliability risk, or the risk that the data within the system was unreliable for determining the accuracy of quarterly performance reports. To determine the reliability risk, we considered how we would use the system data and whether we could corroborate the data with other evidence. Second, we determined our existing knowledge of and experience with the information systems and system data. This determination included reviewing other relevant audit reports.

Next, we obtained an understanding of system controls, their purposes, and whether they were operating properly. System controls consist of general and application controls. We evaluated the strength of these controls and whether they could reasonably be expected to prevent errors and detect those that do occur. We also tested selected controls to ensure that they were in place and working. Based on this evaluation, we assessed system adequacy and reliability for the elements of those systems relevant to receivership terminations and established the level of data testing of termination case files that we should perform.

GENERAL CONTROLS

Audits by an independent public accounting (IPA) firm and OIG disclosed a number of general control weaknesses within FDIC's computer environment. General controls are the structure, methods, and procedures that apply to the overall computer operations in an agency. They include organization and management controls, security controls, and system software and hardware controls.

In preparation for the FDIC financial statement audit, OIG engaged an IPA firm to conduct procedures relative to FDIC's electronic data processing (EDP) general control environment. The IPA identified numerous control weaknesses and system exposures related primarily to access and system software controls. The IPA noted the findings were limited to the EDP general controls and must be considered along with the overall internal control environment at FDIC. GAO reported on the results of this review to FDIC in an EDP management letter, dated August 14, 1998. GAO concluded that although the weaknesses identified were not material in relation to the financial statements, they warranted the attention of management.

In October 1998, OIG issued a report on FDIC information systems security in Dallas, Texas.² The report evaluated whether FDIC Dallas' security controls protected computer systems and local area network (LAN) equipment and whether the Division of Information Resources Management (DIRM) had contingency plans to ensure that important systems could be restored after a disastrous event. The report reviewed Dallas access control practices for each division, the LAN operating system and equipment, and three information systems: (1) the Accounts Payable and Purchase Order system (APPO), which interfaces with FIMS, (2) the Liability Dividend System (LDS), which is used to record detailed records of receivership's liabilities and process dividend payments to claimants, and (3) the Personnel Action Request System (PARS). The audit found the APPO was well protected, but identified a number of security lapses related to controls over the LAN, LDS, and PARS. The audit concluded that FDIC was vulnerable to information and equipment manipulation and destruction and had no assurance that critical operations terminated by disaster could be restored.

RTS resides on the UNIX/Oracle server. OIG issued an audit report of this server in May 1997.³ Among other things, OIG identified areas for improvement related to: (1) log-on ID and password management, (2) unrestricted access to directories and files, and (3) UNIX features/options vital to controlling and managing system usage that were either not functioning

² *Information Systems Security-Dallas*, Audit Report D98-087, dated October 22, 1998.

³ *Information Systems Audit of the UNIX/Oracle Server*, Audit Report 97-051, dated May 7, 1997.

correctly or not properly implemented. DIRM and OIG reached management decisions on each of OIG's recommendations.

APPLICATION CONTROLS

Although the reviews mentioned above identified general control weaknesses, we found the elements of the systems relevant to receivership termination performance reporting possessed application controls to help ensure the integrity of data input, processing, and output. Application controls are those methods and procedures designed for each application to ensure the authority of data origination, the accuracy of data input, integrity of processing, and verification and distribution of output.

Financial Information Management System General Ledger

The FIMS General Ledger is a repository of financial information for all receivership and corporate activities. It operates in a multi-fund environment, supporting the activities of various divisions and offices, and is designed to track and report detailed as well as summarized financial information. DRR management confirmed that FIMS is the information system for tracking and reporting the status of financial receiverships. Further, on June 17, 1998, DRR issued a statement of policy, Receivership Management Termination Goal, which stated:

“FIMS is the corporation's official system of record for receiverships. DRR must measure its corporate strategic plan goal achievements against the official records of the corporation. Any internal reporting, e.g., the DRR Monthly Activity Report, must reconcile to FIMS records.”

During 1997, OIG reviewed the development of phases I and II of FIMS and reported the project followed generally accepted system development procedures and included adequate controls to ensure accurate accounting and data integrity.⁴ OIG's review included testing data entry procedures and system edits, interface controls and the general ledger router processing. The router is a computer program that generates journal entries to accurately account for corporate, receivership, conservatorship, and assistance agreement funds. OIG also concluded that controls were in place to detect erroneous transactions and to allow for necessary corrections in a timely manner.

FDIC has developed several manuals to document FIMS including the *FIMS General Ledger Operations Manual for the Financial Information Processing Control Unit*, dated June 25, 1997. Among other things, this manual documents procedures for conducting system maintenance transactions such as adding, inactivating, or changing bank numbers and placing financial institution numbers (FIN) in T-status.

⁴ *Audit of Financial Information Management System Development* (97-112), dated November 10, 1997.

To assess reliability of those elements used for receivership termination performance reporting, we performed several tests of FIMS access and system controls by entering test transactions into the FIMS Accounting Control Key (ACK) Segment Value pane. FIMS' systems controls effectively blocked our attempts to:

- Post expenses to FINs in T-status,
- Change the status of a receivership from active to inactive,
- Post any type of accounting activity to inactive FINs, and
- Delete a receivership from the FIMS bank table.

Based on the tests that we performed, nothing came to our attention to suggest these access and system controls were not in place and working.

Receivership Terminations System

RTS tracks FDIC receiverships through the termination process and assists DRR Termination Departments in meeting annual termination goals. The system tracks active and inactive receiverships, along with the impediments to termination and termination milestone dates. It is a national system, with each service center responsible for entering its own termination data.

Although FDIC's 1998 Annual Performance Plan indicated that non-financial receivership management activities were tracked through FIMS and RTS, DRR has not used RTS to report non-financial receivership activity in performance reports. Nevertheless, because the performance plan and performance reports identify RTS as one of the information systems for tracking receiverships, we performed work to assess the reliability of RTS.

RTS is primarily a database used to track receivership termination activity. Consequently, most of the application controls relate to data entry and data security/access controls. Based on our discussion with DIRM staff and our review of RTS documentation, it does not appear that RTS performs significant data processing, with the exception of monthly downloads of information from several other FDIC systems. The most relevant download of information to terminations is a monthly download from FIMS. Each month, receivership data in RTS is updated using data from the FIMS Oracle database. The update overlays the existing RTS data with FIMS data. Any changes made during the month to any of the fields affected by the download are overwritten. All other data entry controls, such as when the CT date should be entered, are procedural. These procedures are documented in DRR's *Termination Manual*, dated January 1998.

RTS security controls are access-related and dictate which users can log onto the system, which office location the users may access, and whether the user may read, write, or delete records from the system. The *Receivership Terminations System User Manual*, dated February 1998, describes RTS and provides guidance to system users.

To assess system reliability, we performed limited testing of RTS access controls for changing data within the system. We had a user with read-only access attempt to edit records within RTS

by changing an active receivership to inactive, placing an active receivership into T-status, and entering a CT date. RTS access controls effectively prevented changes from being made to the records. Based on these limited tests, nothing came to our attention to suggest the access controls that we reviewed were not in place or working.

SEPARATION OF DUTIES WITHIN THE RECEIVERSHIP TERMINATION PROCESS

FIMS and RTS application controls were further reinforced by separation of duties within the termination process. As discussed earlier in this report, the termination process requires the coordination of information from a number of FDIC offices and the approval of a termination case by DRR and the Legal Division. Further, once the request to terminate a financial institution is forwarded to DOF for recording on FIMS, duties are further separated within DOF. The Field Finance Center is the requesting office, the Operations Support Section is the authorizing office, and the Financial Information Processing and Control Unit is the processing office. Throughout the termination process, DRR and DOF officials confirm that requested actions have been taken by reviewing the FIMS bank table, which lists all financial receiverships and their current status.

Reconciliation of Termination Activity and Review of Case Files

Information within FIMS, the information system for financial receiverships, reflected DRR's actual financial receivership termination activity. Within RTS, the information system for non-financial receiverships, we found a few discrepancies between RTS data and actual termination activity. However, we found that financial and non-financial receivership termination activities were supported by approved termination cases and extensive case documentation.

FINANCIAL RECEIVERSHIPS

As discussed later, quarterly performance reports did not always accurately present financial receivership termination activity. However, FIMS accurately presented DRR's actual financial receivership termination activity for our period of review. FIMS indicated that DRR placed 110 financial receiverships into T-status during 1997 and 11 financial receiverships into T-status during first quarter 1998. We confirmed this information with DRR service center staff. Table 3 compares financial receivership T-status activity appearing in quarterly performance reports with information in FIMS and information gathered from DRR service center officials.

Table 3: Reconciliation of Financial Receiverships Placed in T-Status between Performance Reports, FIMS and Confirmations with DRR Staff

	<i>1st-3rd Qtr 1997</i>	<i>4th Qtr 1997</i>	<i>1st Qtr 1998</i>
<i>Performance Reports</i>	<i>70</i>	<i>18</i>	<i>11</i>
• <i>Institutions that were not counted in Performance Reports</i>	<i>2</i>	<i>20</i>	
<i>Actual Termination Activity as Confirmed by Service Centers</i>	<i>72</i>	<i>38</i>	<i>11</i>
<i>FIMS General Ledger</i>	<i>72</i>	<i>38</i>	<i>11</i>

Source: Quarterly performance reports, FIMS, and interviews with DRR staff.

DRR's *Termination Manual* (Manual) states that prior to the termination of any receivership, a termination case must be prepared and approved in accordance with current delegations of authority. The Manual further states that DRR Terminations is required to keep files on all terminated receiverships containing, at a minimum, the approved termination case and all backup documentation relevant to the case. The Manual includes a table of information that should be maintained in the termination file. This table includes the termination case and the CT.

We reviewed 100 percent of the 49 financial receiverships that FIMS indicated were placed in T-status during the fourth quarter 1997 and the first quarter 1998. We analyzed termination files to ensure each terminated receivership was supported by an approved termination case. We concluded that the financial receivership information included in FIMS, which was also confirmed by service center staff, was supported by information within the case files.

NON-FINANCIAL RECEIVERSHIPS

As discussed later, quarterly performance reports also did not always accurately report non-financial receivership termination activity. Further, based on our confirmations of actual receivership termination activity with service center staff, we found that RTS did not always accurately present non-financial receivership termination activity. We recommended that DRR correct discrepancies within RTS and establish a procedure for periodically verifying the accuracy of information within FIMS and RTS. Table 4 reconciles the non-financial receivership CT activity appearing in quarterly performance reports and in RTS, to actual CT activity confirmed with DRR service center staff.

Table 4: Reconciliation of Non-Financial Receivership Termination Activity between Performance Reports, RTS and Confirmations with DRR Staff

	<i>1st-3rd Qtr 1997</i>	<i>4th Qtr 1997</i>	<i>1st Qtr 1998</i>
<i>Performance Reports</i>	<i>37</i>	<i>81</i>	<i>12</i>
• <i>Institutions that were double counted in performance reports</i>	<i>-13</i>	<i>-1</i>	<i>-2</i>
• <i>Unsupported terminations</i>	<i>-13</i>		
• <i>Institutions reported in the wrong period</i>	<i>1</i>	<i>-1</i>	
• <i>Institutions not included in the performance report</i>			<i>1</i>
<i>Actual CT Activity as Confirmed by Service Centers</i>	<i>12</i>	<i>79</i>	<i>11</i>
• <i>Institutions double counted in RTS</i>			<i>2</i>
• <i>Terminated FINs not included in RTS CT reports.</i>	<i>-4</i>		<i>-1</i>
• <i>Unsupported terminations appearing on RTS CT reports</i>	<i>2</i>		
• <i>FIN recorded in the wrong performance report period on RTS</i>	<i>1</i>		
<i>Receivership Tracking System</i>	<i>11</i>	<i>79</i>	<i>12</i>

Source: Quarterly Performance Reports, RTS, and interviews with DRR Staff.

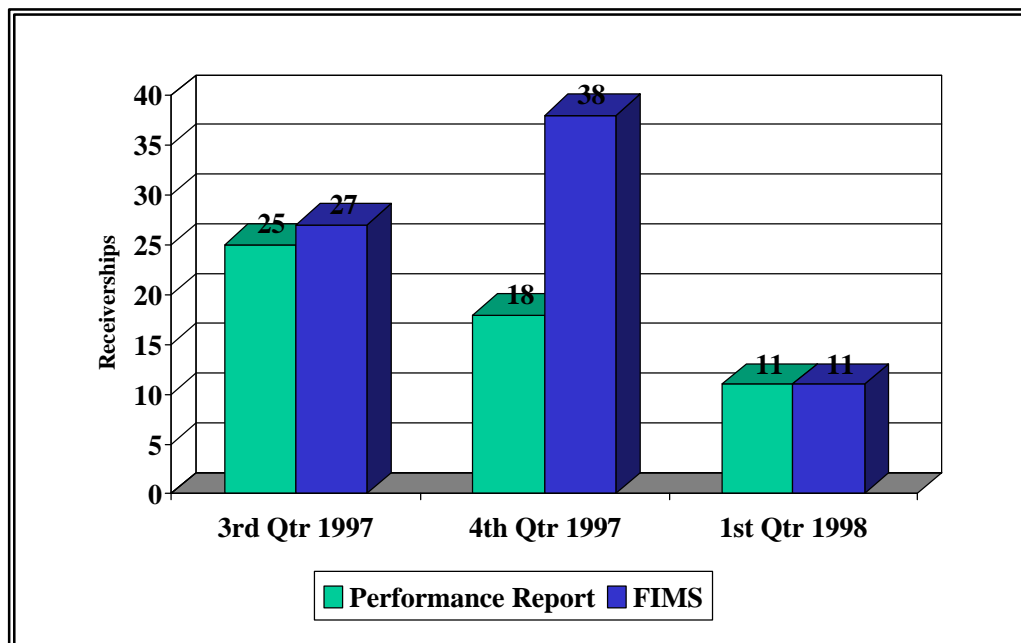
DRR actually issued CTs for 92 non-financial receiverships during fourth quarter 1997 and first quarter 1998. We selected a random sample of 52 non-financial receiverships for detailed review. We analyzed the termination case files and ensured that each termination was supported by an approved case and a signed CT. We did not find any errors among the random sample of 52 non-financial receiverships that we reviewed. Based on this result, we are 95 percent confident that the number of the 92 non-financial receiverships in the population that have errors is three or less.

Financial Receivership Termination Reporting

DRR financial receivership termination activity included in quarterly performance reports was not always accurate. Overall, it appears DRR under-reported T-status activity by 22 financial receiverships during 1997. DRR could not definitively explain why these reporting discrepancies occurred. Further, DRR initially over-reported T-status activity by 29 financial receiverships during first quarter 1998. DRR changed its performance goal between the 1997 and 1998 reporting periods, but did not provide an explanation for the change or disclose the effects of that change. As a result, the First Quarter 1998 Performance Report was somewhat misleading. We made recommendations to address these issues.

DRR under-reported the number of institutions it placed in T-status by two receiverships in third quarter 1997 and by 20 receiverships in fourth quarter 1997. FDIC quarterly performance reports stated that FDIC placed 88 financial receiverships in T-status during 1997. However, FIMS indicated that FDIC placed 110 receiverships in T-status during 1997. Figure 3 presents information about financial receiverships placed in T-status in the third and fourth quarter of 1997 and first quarter of 1998.

Figure 3: Financial Receivership T-Status Activity Reported in Quarterly Performance Reports and on FIMS



Source: FDIC quarterly performance reports and interviews with service center staff.

Note: DRR initially reported 40 terminations in a First Quarter 1998 Performance Report draft, but corrected the count in the final report.

DRR officials acknowledged that the third and fourth quarter performance reports under-reported FDIC's receivership termination activity. However, DRR officials could not definitively explain why it under-reported financial receivership termination activity during 1997. One DRR representative suggested that a programming error in a computer file used to download information from FIMS could have caused the discrepancies. The computer file is no longer used in the download process. Other DRR officials suggested that staffing and reporting changes, the FDIC and RTC merger, the inconsistent use of receivership management terminology, and the inconsistent treatment of receiverships between RTC and FDIC could have contributed to reporting discrepancies. We noted that DRR headquarters did not have the service centers confirm performance information reported to DOF. Confirmation by the offices effecting the terminations may have identified reporting discrepancies.

Moreover, DRR initially over-reported termination activity during the first quarter 1998. A draft First Quarter 1998 Performance Report stated that DRR placed 40 financial receiverships into T-status through March 31, 1998. FIMS supported that FDIC had only placed 11 receiverships into T-status during first quarter 1998. However, FIMS indicated that FDIC had *inactivated* 40 receiverships during first quarter 1998.

DRR responded that it had changed its performance goal in FDIC's 1998 Annual Performance Plan, but failed to change the language in the draft First Quarter 1998 Performance Report to reflect the new performance goal. During 1997, DRR's goal was to close and/or place into T-status 150 receiverships. DRR changed its goal in the 1998 Annual Performance Plan to reduce the number of receiverships in active status to 878 receiverships.

Accordingly, DRR expanded the language in the performance results section of FDIC's First Quarter 1998 Performance Report, and reported that it placed 40 financial receiverships into inactive status and 11 financial receiverships into or through the T-status process. While this statement was technically accurate, it was somewhat misleading. Over one-half of the 40 receiverships reported as placed into inactive status in the First Quarter 1998 Performance Report were also reported as placed in T-status during the Third and Fourth Quarter 1997 Performance Reports. In our opinion, the First Quarter 1998 Performance Report should have disclosed that the performance result indicator had been changed and the effect of that change on the number of receiverships reported.⁵

As discussed in the Background section, in August 1998, DRR changed its process for terminating financial receiverships and began issuing CTs before inactivation. DRR now reports terminated FINS at the point of inactivation--the final step in the termination process. We agree with DRR's new process and believe inactivation is a more appropriate point in the process to report a financial receivership as terminated. We believe that DRR's decision will help to eliminate some of the confusion that may have resulted in discrepancies reported in past performance periods.

⁵ DRR changed its performance results section again in FDIC's Second Quarter 1998 Performance Report to present only the number of receiverships inactivated. DRR reported that 66 receiverships had been inactivated during 1998. Again, while that statement is technically accurate, over one-half (34) of the 66 receiverships were also reported as placed in T-status during the Third and Fourth Quarter 1997 Performance Reports.

PROCESS FOR REPORTING FINANCIAL RECEIVERSHIP INFORMATION

In FDIC performance plan and reports, DRR indicated that FIMS was the system used to track termination activity. Each month, a DRR Senior Management Reporting Specialist prepares a spreadsheet of receiverships with an indication of their status based on information from FIMS, which is then used to report financial receivership activity in the quarterly performance report. The Specialist first downloads selected information from the FIMS bank table, then carries out several steps to determine the extent of receivership activity that occurred during the month. These steps include eliminating about 30 FIMS with DOF receivership category codes that DRR does not consider being receiverships. The spreadsheet is then posted to DRR's Intranet web page and used to report performance activity.

We recommended that DRR consider using RTS as its information system for tracking and reporting financial and non-financial receivership performance activity. RTS tracks all receivership termination activity and has the capability to print a standard report of receiverships that have been inactivated during a particular year. Further, DRR headquarters and the service centers have access to RTS. FIMS also automatically updates selected fields in RTS each month. The update overlays the existing RTS data with FIMS data. Any changes made during the month to any of the fields affected by the download are over-written. As discussed elsewhere in this report, the only concern we have with this feature is the monthly update does not develop an exception report of any discrepancies between FIMS and RTS. With this enhancement, we believe RTS would be an efficient tool to track and report receivership termination activity for performance reporting purposes.

Non-Financial Receivership Termination Reporting

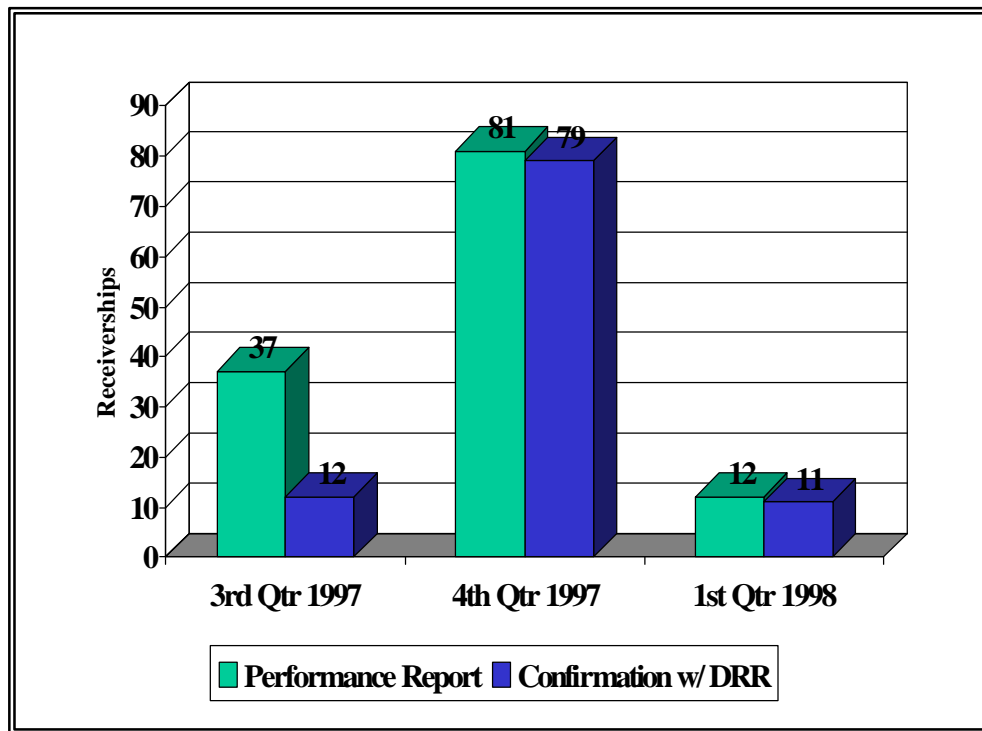
Quarterly performance reports did not always accurately present DRR's actual success in issuing CTs for non-financial receiverships. We believe these reporting discrepancies occurred because DRR did not clearly communicate instructions for reporting termination activity, establish an effective process for gathering and reporting performance results, or use RTS to report non-financial receivership terminations. During our review, DRR issued guidance to clarify when non-financial receiverships should be reported as terminated. We made recommendations for DRR to correct performance report discrepancies and to improve the reporting process.

Overall, it appears DRR over-reported CT activity by a net of 28 non-financial receiverships during 1997 and first quarter 1998. DRR reported that it terminated 118 non-financial receiverships during 1997 and 12 non-financial receiverships during first quarter 1998. However, we found that 16 of the 130 receiverships were counted in more than one reporting period. Further, DRR could not provide the specific institution information for an additional 13 non-financial receiverships that were reported as terminated. Finally, DRR did not report one institution for which a CT had been issued. Most of the reporting problems occurred in the Third Quarter 1997 Performance Report. Figure 4, on the following page, presents information about DRR's non-financial receivership CT activity as confirmed for third and fourth quarter 1997 and first quarter 1998.

We met with DRR officials on July 9, 1998 and October 9, 1998, to discuss our preliminary findings. DRR management confirmed that DRR had misreported non-financial receivership activity in its quarterly performance reports and did not dispute our findings.

In our opinion, these reporting discrepancies occurred because DRR did not clearly communicate instructions for reporting termination activity or establish an effective process for gathering and reporting performance results. Headquarters DRR did not provide clear guidance for reporting non-financial receivership termination activity. It appears there was some confusion between DRR service center staff and DRR headquarters staff regarding when non-financial receiverships should have been reported as active, inactive, closed and/or terminated. As a result, the performance reports did not accurately present DRR's success in issuing CTs for non-financial receiverships.

Figure 4: Non-Financial Receivership CT Activity Reported in Quarterly Performance Reports and Confirmed with DRR



Source: FDIC quarterly performance reports and interviews with service center staff.

Following our presentation of findings, DRR management provided a copy of a DRR statement of policy, dated June 17, 1998, regarding receivership management termination goals. This policy established criteria for when financial and non-financial receiverships are considered active and inactive.

PROCESS FOR REPORTING NON-FINANCIAL RECEIVERSHIP TERMINATIONS

DRR's process for reporting non-financial receivership termination activity likely contributed to the performance reporting problems. At the time of our review, a Dallas Field Operations Branch Terminations Specialist (Specialist) contacted each DRR service center monthly to determine the number of CTs each office had issued. The Specialist confirmed the CT information reported by the service centers with RTS then prepared an e-mail reporting the summary number of active non-financial receiverships by bank fund and by service center. The Specialist used the prior month's e-mail to determine the number of active non-financial receiverships. The e-mail also included the total number of CTs issued for all of the service centers for the month. However, the e-mail did not identify the individual non-financial receiverships for which a CT was issued. The Specialist forwarded the e-mail to DRR's Financial Reporting Unit in headquarters. The Financial Reporting Unit Manager determined monthly non-financial receivership termination activity by comparing the e-mails for the current

month and previous month and calculating the difference. The Manager forwarded the information quarterly to DRR's Information Analysis Unit, which prepared DRR's quarterly performance report submission.

We believe this process could be improved by using RTS to track and report termination activity. As discussed earlier, RTS captures all of the data necessary to track the progress of a receivership termination. RTS also has the capability to produce reports of receiverships in T-status, inactive receiverships, and receiverships for which CTs have been issued. Further, DRR headquarters and service centers have access to RTS.

Conclusions and Recommendations

DRR has contributed to Corporation performance plans and performance reports as required by the Results Act. DRR has also identified systems used to validate and verify performance data.

Our work and conclusions were limited to the general and application controls relevant to those FIMS and RTS elements used for receivership termination performance reporting. Because prior GAO and OIG reports identified a number of general control weaknesses within FDIC's computer environment we could not provide complete assurance as to the overall reliability of FIMS and RTS. However, nothing came to our attention during our testing to suggest that application controls over the elements of FIMS and RTS used for receivership termination performance reporting were not in place and working. Moreover, we found separation of duties between DRR and DOF within the terminations process that reinforced those application controls. Thus, we could provide assurance that those elements of FIMS and RTS used for receivership termination reporting were reliable. Further, we identified a few data discrepancies within RTS, but determined that termination case files adequately supported actual termination activity.

We concluded that DRR performance reporting could be improved. We found a number of reporting discrepancies in FDIC quarterly performance reports that misrepresented DRR's actual performance results. We believe that more open communication between DRR headquarters and service centers and improvements in DRR's process for gathering and reporting performance information are warranted. Accordingly, we recommended that the DRR Deputy Director:

- (1) Clearly communicate performance goals and targets as well as reporting criteria and performance measurement methods to individuals involved in the termination process and in the performance management reporting process.
- (2) Have service center staff confirm performance reporting statistics before submitting performance report information to DOF.
- (3) Report receivership termination activity within DRR in institution specific format instead of summary format.

DRR indicated that RTS was one of the information systems used to track receivership termination activity. However, we found that DRR did not use RTS to report termination activity. We believe that, with an enhancement and a reconciliation of the data within the system, RTS could provide a more efficient method of reporting receivership activity for performance reporting purposes. Accordingly, we recommended the DRR Deputy Director:

- (4) Work with DIRM to enhance the capabilities of RTS so that it will generate an exception report during the monthly FIMS download process.

- (5) Perform a reconciliation of information within RTS to ensure that it contains accurate and current information.
- (6) Use RTS as the information system for reporting financial and non-financial receivership termination activity for performance reporting purposes.

DRR expanded its performance goal in FDIC's 1998 Annual Performance Plan from reporting financial receiverships at the T-status stage to reporting financial receiverships at the T-status and inactivation stage. As a result, a number of financial receiverships reported in the First Quarter 1998 Performance Report were also reported in the Fourth Quarter 1997 Performance Report. To properly characterize DRR's performance accomplishments, we recommended the Deputy Director, DRR:

- (7) Address the effect of changing the receivership management performance goal in the 1998 Annual Performance Plan through a disclosure in the Third Quarter 1998 Quarterly Performance Report.

Further, we believe DOF should issue guidance on changing performance goals, measures, or reporting methodologies to prevent such changes from distorting, or making it difficult to measure, actual performance. Accordingly, we recommended the Acting Director, DOF, and Acting Chief Financial Officer:

- (8) Establish reporting requirements for instances when division goals, measures, or reporting methodologies change. At a minimum, such a policy should require divisions to explain the need for the change and disclose the effects of the change, or restate prior period performance reports to preserve the historical continuity of performance reporting trends.

Corporation Comments and OIG Evaluation

On November 19, 1998, the Assistant Director, Receivership Management Operations Branch, through the Deputy Director, Operations Branch, provided DRR's response to a draft of this report. On November 23, 1998, the Director, DOF, also provided DOF's response to a draft of this report. These responses are presented as Appendix II to this report. Of the eight report recommendations, DRR agreed with six recommendations, agreed partially with one recommendation and disagreed with the remaining recommendation. DRR's written response provided the requisites for a management decision on all of the recommendations. For those recommendations to which DRR partially or entirely disagreed, the response adequately supported the division's position.

One of the report recommendations was addressed to DOF. DOF management agreed with the recommendation and provided information in its written response necessary to reach a management decision.

A summary of DRR's response to recommendations 5 and 6 and our analysis follows. DRR and DOF's response to recommendations 1 through 4, 7 and 8 are not summarized because the actions planned or taken are the same as our recommendations.

Perform a reconciliation of information within RTS to ensure that it contains accurate and current information (recommendation 5): DRR agreed in part with this recommendation. DRR responded that it uses RTS only as a management tool to track impediments to terminations and to help identify receiverships eligible for termination. Approximately 25 percent of the information within RTS is relevant to tracking impediments. The remaining 75 percent of the information within RTS is automatically downloaded monthly from FIMS and the Legal Management Information System (LMIS). DRR agreed to reconcile the 25 percent of the information within RTS that is relevant to tracking impediments. DRR responded that DOF and the Legal Divisions are the data stewards responsible for the accuracy of receivership information within FIMS and LMIS, respectively. Further, during a draft report discussion, a DOF management representative pointed out that DOF requires copies of source documents, such as a signed termination case, to authorize placing a receivership in T-status on FIMS.

As discussed in recommendation 6, DRR is not going to use RTS to report receivership termination activity for performance reporting purposes. Accordingly, we do not believe it is critical that DRR reconcile 100 percent of the RTS data. Further, DRR did note in its response that it will continue to compare FIMS and RTS information to ensure that receiverships reported as inactivated are consistent with service center termination activity. DRR's response is sufficient to reach a management decision on this recommendation.

Use RTS as the information system for reporting financial and non-financial receivership termination activity for performance reporting purposes (recommendation 6): DRR disagreed with this recommendation. DRR indicated that it will continue to use FIMS to report financial receivership termination activity for performance reporting purposes because FIMS is

FDIC's official system of record and because financial receiverships are recorded on FIMS from inception through inactivation. DRR's response is sufficient to reach a management decision on this recommendation. However, we recommend that DRR determine why its process of downloading termination activity from FIMS resulted in the incorrect reporting of financial receivership information during the third and fourth quarters of 1997 to ensure the accuracy of future performance reports.

With respect to non-financial receiverships, DRR responded that in September 1998 it began requiring service centers to e-mail copies of CTs to DRR headquarters as evidence of termination for performance reporting purposes. While this procedure is responsive to recommendations 2 and 3, if in the future this process becomes burdensome, DRR should consider relying on RTS, which has the capability to produce a standard report listing all CTs issued for a specific period of time.

Appendix I: Evaluation Methodology

To determine the reliability of systems used to track receivership activity we performed the following work for each system.

- Where possible, we relied on the work of others to assess general and application controls.
 - We interviewed OIG staff from the Information Systems Audit Branch about FDIC's general controls over information systems and general controls and application controls relative to FIMS.
 - We spoke with a DIRM point of contact for RTS to discuss general controls and application controls relative to RTS.
 - We reviewed other OIG reports relative to general and application controls related to FIMS and RTS.
 - We interviewed staff from the GAO Financial Statement Audit and reviewed a management letter discussing opportunities for improving FDIC's electronic data processing general controls.
- For general controls, our work included determining whether:
 - FDIC used a standard system design process for developing relevant computer systems,
 - FDIC had addressed all audit recommendations pertaining to relevant systems,
 - Relevant computer facilities and its components were secure, and access was restricted,
 - Separation of duties within the Corporation was adequate for developing applications,
 - FDIC adequately documented programs related to receivership management, and
 - The Corporation had formal procedures for requesting approving, testing and implementing system changes.
- For application controls, we assessed the input, processing and output controls built into each system. This included identifying:
 - Access controls to view and alter data within relevant systems,
 - Procedures for data collection, authorization, input, and error handling,
 - Sequence controls within the system to preserve the termination process sequence,
 - System controls for reconciling input entries against output records,
 - System generated error reports,
 - Procedures for supervisory approval of information before it is input into the system.

- We also tested FIMS' system controls using a number of test entries. We entered test transactions into the FIMS ACK Segment Value pane. We performed the following tests to evaluate FIMS access controls.
 - Post expenses to FINs in T-status,
 - Change the status of a receivership from active to inactive,
 - Post any type of accounting activity to inactive FINs, and
 - Delete a receivership from the FIMS bank table.
- We also performed work to determine the completeness, authenticity, and accuracy of the system data pertaining to terminations.
 - To determine completeness, we:
 - Obtained confirmation from DRR staff on the total receivership termination activity for our period of review,
 - Reconciled those confirmations with the relevant information systems,
 - Traced a sample of receiverships from the confirmations to the source case files.
 - To determine authenticity we ensured that every case file included a signed termination case authorizing the termination.
 - To ensure accuracy of data we reconciled system information, confirmations and case file information.

SAMPLE SELECTION FOR DATA TESTING

We reviewed terminations from fourth quarter 1997 and first quarter 1998. Through our review of system information and confirmations with service center staff, we determined that FDIC placed 49 financial receiverships into T-status and issued CTs for 92 non-financial receiverships during that period. We selected 100 percent of the 49 financial receiverships for detailed review. For each receivership, we reviewed the termination case file and ensured the termination was supported by an approved termination case.

For the non-financial receiverships, we selected a random sample of receiverships based on a 95 percent confidence level, five percent error rate and ± 4 percent precision. This yielded a sample of 52 non-financial receiverships for detailed review. For each non-financial receivership, we reviewed the termination case file and verified that a signed CT supported the termination.

Appendix II: Corporation Comments

Appendix III: Management Response to Recommendations

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report from the DRR and DOF Management.

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will confirm final action	Monetary Benefits	Management Decision: Yes or No
1	<ul style="list-style-type: none"> • DRR's 1999 Strategic Plan termination goals were set by consensus between field office and headquarters staff. • DRR issued a statement of policy defining the terms for active, T-status, and inactive receiverships. • DRR issued specific instructions and performance criteria to field offices for terminating non-financial receiverships. 	10/22/98 6/17/98 9/09/98	DRR provided copies of correspondence discussed as attachments to its 11/19/98 response.	\$0	Yes
2	DRR will continue to use FIMS for financial receiverships. Effective September 1998, DRR headquarters began requiring service centers to provide copies of CTs as evidence of termination for non-financial receiverships.	8/31/98	DRR provided copy of 8/31/98 memorandum as an attachment to its 11/19/98 response.	\$0	Yes
3	DRR headquarters will maintain institution specific reporting information for financial receiverships from the FIMS bank table. DRR headquarters will require the service centers to provide copies of CTs for individual non-financial receiverships.	Implemented September 1998 and Ongoing	DRR provided copy of 8/31/98 memorandum as an attachment to its 11/19/98 response.	\$0	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will confirm final action	Monetary Benefits	Management Decision: Yes or No
4	DIRM released RTS version 1.2 in August 1998, which added an internal ad hoc reporting capability that will enable DRR to perform various queries and reconciliations. Before year end 1999, DRR and DIRM will initiate programming to develop an automated exception report for comparing FIMS and RTS data.	12/31/99	RTS upgrade	\$0	Yes
5	DRR accepted this recommendation in part. DRR uses RTS only as a management tool to track impediments to terminating receiverships. Accordingly, DRR will reconcile impediment-to-termination-related data within RTS, or approximately 25 percent of the data within RTS. The remaining 75 percent of the data is downloaded monthly from FIMS and LMIS. DRR will rely on DOF and the Legal Division to maintain the accuracy of data related to receiverships on FIMS and LMIS.	3/30/99	N/A	\$0	Yes
6	DRR disagreed with this recommendation. FIMS is the corporation's system of record for reporting the inactivation of financial receiverships. DRR uses RTS only as a management tool to track impediments to terminations. With respect to non-financial receiverships, DRR will require service centers to submit copies of CTs to headquarters to evidence termination.	N/A	N/A	\$0	Yes
7	DRR will include a footnote to the next quarterly performance report disclosing the numeric effect of changing performance goals between 1997 and 1998.	Publication of the Third Quarter 1998 Performance Report	Third Quarter 1998 Performance Report	\$0	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will confirm final action	Monetary Benefits	Management Decision: Yes or No
8	<p>In instances where a performance indicator or reporting methodology is changed, or a performance goal is changed within an annual performance reporting period, DOF will require divisions to explain change, impact of the change, reason for change, and, when practical, restate performance results.</p> <p>In instances where a performance goal is changed between annual performance reporting periods, DOF will require divisions to identify the goal as “new”.</p>	First Quarter 1999	DOF policy statement	\$0	Yes